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BUSINESS MEN  
AND  
MODERN ECONOMICS

A Paper

READ BEFORE THE BRITISH ASSOCIATION AT GLASGOW,  
ON 16th SEPTEMBER, 1901.

BY

T. S. CREE,

*Author of "A Criticism of the Theory of Trades' Unions" and  
"Evils of Collective Bargaining."*

THREEPENCE.

GLASGOW:  
BELL & BAIN, LIMITED, 41 MITCHELL STREET.  
1903.

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T W O P E N C E .

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### OPINIONS.

From HIS GRACE THE DUKE OF ARGYLL.—"I have read with great interest your pamphlet on the theory of trades' unions, and I must say it is about the ablest argument I have seen upon the subject.—ARGYLL."

From LORD BRAMWELL.—"It is excellent.—BRAMWELL."

From Mr. AUBERON HERBERT.—"I am very glad you are reprinting your pamphlet. Our workmen have yet to see how a perfectly free market for everything,—materials, goods, land, manual labour, professional, artistic, inventive ability, in a word every form of capital, material or mental,—is the one necessary condition for prosperity and progress.—AUBERON HERBERT."

From President WALKER, Boston.—"I am sure your paper will do much good. To a large extent, the expectations which working men, and philanthropists in their interest, found upon strikes are vain and delusive.—FRANCIS A. WALKER."

From J. C. BOLTON, Esq., M.P.—"I read your paper with great interest and with an earnest wish that it should be studied by those who, of all men, are in my opinion most interested—I mean the working men of this country—both those who are and those who are not members of trades' unions. My views on the subject of trade combinations, so far as respects the raising of wages by their agency, are in accord with yours.—J. C. BOLTON."

"A very able and incisive criticism, and no one can fail to admire the vigour of Mr. Cree's thought and the lucidity of his expression."—*Glasgow Herald*.

"M. T. S. Cree fut en correspondance avec Stuart Mill et relève avec sagacité les opinions inexactes de cet économiste, dont la fin de la vie ne fut pas exempte de tendances socialistes."—*L'Economiste Français*.

"A glance at your pamphlet at once shows me the competence of the writer.—W. E. GLADSTONE."

# BUSINESS MEN AND MODERN ECONOMICS :

## A Paper

READ BEFORE THE BRITISH ASSOCIATION AT GLASGOW,  
ON 16TH SEPTEMBER, 1901, BY T. S. CREE.

THE subject and the title of this paper were suggested by a remark made by Lord Goschen some years ago, that he thought the present want of sympathy and mutual understanding between business men and economists was very much to be regretted. Our Professor Smart also has written of the distrust with which, in many quarters, modern economics are regarded. So that men on both sides recognise that they have drifted away from each other. And I can remember the time when, among business men, reference to economic theory was much more common than it is now.

I speak as a business man. I have no claim to be called an accomplished economist, but I have read a good deal in economics, and I have had a very varied experience of business of a kind to lead me to think of its principles—of the economics of business. I may therefore be able to take a useful part in the discussion of the causes of this want of sympathy which Lord Goschen thinks so much to be regretted. I may say, also, that the views I express are very generally held by business men. This is my excuse for venturing to address an audience of economists.

What, then, are the causes of this want of understanding? One minor cause I believe to be the change in the terms employed in economic science. Anybody can understand Adam Smith. I read the *Wealth of Nations* and Mill's *Political Economy* when I was young with ease and, I think, comprehension, but when, after many years, I began to read economics again I seemed to be reading an unknown tongue. Many phrases conveyed no meaning to me till I had them explained, and some not even then. But I found later that in reading

and corresponding with the highest modern authorities, such as Gen. Walker and Professor Alfred Marshall, I had not so much difficulty as with some of the lesser lights. I found that many refinements had been added to the science requiring new phrases, and I think that some of the Professors, in devoting their attention to these minor points, have weakened their grasp of first principles. I think, therefore, that while the development of the science may necessitate an increased technicality in the terminology, much of the change to which I refer is unnecessary, and some of it due to a vague and obscure transcendentalism, which is not scientific. But there are more serious differences than this.

I may remark that some of the "new economists," as they call themselves, do not share Lord Goschen's regrets. They think themselves to be arguing on a higher plane than business men usually do, and, if the latter cannot follow them there, they say they do not greatly care. I think they are wrong in this. Indeed, I will say that if, in a prosperous community, there is a permanent discordance between commercial method and economic theory, it is probably the theory that is at fault. For that is the result of abstract discussion by a very few, though no doubt highly-trained, intellects of a subject bristling with difficulties, where it is easy to take a wrong turn—a science whose conclusions are determined by factors which are very apt to be wrongly estimated or altogether overlooked. Commercial practice, on the other hand, is the result of a long process of evolution. Many millions of transactions and experiments, millions of failures, have resulted in the gradual elimination of unsound methods and the survival of the fittest.

Now, the difference or want of sympathy referred to is mostly on problems of distribution, and particularly on labour questions, and as it has evidently arisen in comparatively recent times, it is presumably caused by a divergence by one of the two classes from views previously held by both.

Let us see what that divergence is.

Adam Smith's book on the *Wealth of Nations* had a rapid success among the business community, partly from its lucidity and aptness of illustration, but chiefly because its theories were felt to be in accordance with all business experience. It put in a reasoned form the

principles which men of business almost instinctively acted upon. Long practice and natural selection had established these principles on the whole. But till Smith's time they had no scientific sanction, no formal expression, no set of maxims or laws to which reference could be made for guidance in particular cases.

The *Wealth of Nations* supplied that want, and still remains the standard book on the subject. The leading principle which informs the *Wealth of Nations* and every sound book on economics is the law of supply and demand. What is that law? I shall state it almost exactly in Mr. Mill's words, with an apparently slight, but really important, difference, for which I shall give my reasons.

The law is, I think, as follows:—

The forces of supply and demand are always tending to an equality—that is to say, that the quantity of any article offered and the quantity asked for tend to be exactly the same. And the way in which this tendency works is by variations in the price. If at the market price an increased demand should take place, the competition of buyers will drive up the price to the point at which there will only be buyers for as much as is offered for sale, and at the same time the increased price will induce a greater supply. If, on the other hand, the supply exceeds the demand and cannot all be disposed of at the market price, the competition of sellers in the market will drive down the price to a point which will tempt more buyers or the same buyers to increase their purchases, so as to take off all that is offered, while, at the same time, the lowering of the price will tend to reduce the supply; and so the equality is again reached, or rather approached, at the higher or lower level of price. The exactness of the equilibrium is only momentary, but there is a continual tendency to it.

That,\* I think, is the law of supply and demand, or the law of

\* Professor Chapman said that this was a travesty of the law of supply and demand, and that Professor Marshall had taken several books to state the law which I stated in a paragraph. But the statement of the law is not mine, but Mill's, almost in his exact words, and though I may venture to disagree with him, I should not think of calling Mill's definitions "travesties." And I had a correspondence with Professor Marshall on this paper before I read it and he made no complaint on that score. Though not a full statement, Mill evidently thought, and I agree with him, that it was sufficient for the purposes of the argument.

price as some call it, and it is the governing principle in commercial transactions, in dealings in everything that has a price, whether a commodity or a service. Business men know that, if there is an increasing demand for, and short supply of, any article or service, they must pay more for it, and they would never think of questioning the justice of the increased price, nor would they have any compunction in offering a lower price if the conditions were reversed.

And the law works automatically. I mean that those people whose actions it controls are not necessarily aware of its operation, and it needs no supervision by them or others on their behalf. The price is fixed by the action and reaction of supply and demand, by the competition of buyers and sellers, and no combination of one side or the other can defeat its operation in the long run, any temporary advantage gained by this means being counterbalanced by a corresponding disadvantage afterwards. And the smoothness and certainty with which the law works is in proportion to the number of transactions in any market. Now, that law binds all economics together in one consistent whole. Without it they would be a mere mass of unrelated facts and figures, and partial theories. And it has always been, and still is, accepted as their leading principle by all economists in regard to commodities. But economists of a new school have arisen and at present predominate who, I may almost say, are philanthropists first and economists afterwards. The science is to them not so much an "inquiry into the nature and causes of the wealth of nations" as a philanthropic propaganda. How to benefit the poor, how to equalise the distribution of wealth is their primary object, and the scientific inquiry only a secondary one, and subsidiary to the first. "We do not want to make cotton or iron; we want to make good men and women" is their motto. That may or may not be good ethics. I do not think it is, but it is not economics. I have seen in an economic journal one of the highest authorities commended as "a sympathetic economist." What is a sympathetic economist? The words in this conjunction should have no more meaning than "a deeply religious chess-player." Unfortunately, however, they have a meaning. They

mean a man who is sympathetic to one class and not to another, who comes to the study of a scientific problem with a prejudice in favour of a particular solution of it. His thinking is apt to be warped, and his conclusions vitiated by his feelings, and the consequences unfortunate for himself (as in the case of Hugh Miller, the geologist), or for the science.

Something like this has, I think, taken place in the economics of labour. Modern economists have been led by their sympathy for the working-classes, to accept too readily apologies for some of their hitherto condemned methods of attempting to better their condition, and have even given these methods the sanction of their authority. Trades' unions, at one time reprobated, are now approved as being not only beneficial but necessary to the working-classes, and Professors of economics heartily sympathise with them, and sometimes assist them in their struggles with voice and pen and purse. To examine how far the arguments by which this change is justified and sound is the purpose of this paper.

So far as I am aware, the first economic writer to adopt the cause of the trades' unions and claim for them a place within the pale of economic orthodoxy was a friend of Mr. John Stuart Mill, a Mr. Thornton, who wrote a book on *Labour and its Claims*, and he based his argument on the unsoundness of the law of supply and demand. In review of this book Mr. Mill wrote two essays in the *Fortnightly Review* (afterwards published in his works "Dissertations No. IV."), in which, while not admitting that Mr. Thornton had proved the law to be false, he did admit that he had proved it to be incomplete, and he accepted Mr. Thornton's conclusions. As Mill's argument is more concise than Mr. Thornton's, as well as more authoritative, I shall deal with the former.

Mr. Mill states the law thus:—"The demand and supply theory signifies that the ratio which exists between demand and supply, when the price has adjusted itself, is one of perfect equality. If at the market price the demand exceeds the supply, the competition of buyers will drive up the price to the point at which there will only be purchasers for as much as is offered for sale. If, on the contrary, the

supply, being in excess of the demand, cannot all be disposed of at the existing price, either a part will be withdrawn to wait for a better market, or a sale will be forced by offering it at such a reduction of price as will bring forward new buyers or tempt the old ones to increase their purchases. The law, therefore, of values, as affected by demand and supply, is that they adjust themselves so as to bring about an equation between demand and supply by the increase of the one or the diminution of the other, the movement of price being only arrested when the quantity asked for at the current price and the quantity offered at the current price are equal. This point of exact equilibrium may be as momentary, but it is, nevertheless, as real as the level of the sea."

Mr. Mill goes on to say that this is the doctrine which Mr. Thornton contests, by giving case after case in which he thinks the proposition is false, but Mr. Mill picks out one of these cases as a representative one, and says a hundred cases could not show better what Mr. Thornton has and what he has not made out.

This typical example is a sale of a hundredweight of fish by Dutch auction—that is, the seller bidding down instead of the buyers bidding up. He supposes that there may be only one buyer present willing to give 20s. for the lot, and no other buyer willing to give more than 18s.; by the Dutch auction the buyer will take the offer at 20s., while by the English auction the bidding will stop at 18s., and the man who is willing to give 20s. will get the fish at 18s., or a fraction over it. "Thus," he says, "in the same market, with the same quantity of fish for sale, and with customers in number and every other respect the same, the same lot of fish might fetch two very different prices." And, he continues, "The law is equally and completely fulfilled by either of these prices. Mr. Thornton has proved," he says, "that the law of the equalisation of supply and demand is not the whole theory of the particular case. He has shown that the law in this particular case is consistent with two different prices, and is equally and completely fulfilled by either of them. The demand and supply are equal at 20s., and also at 18s.

"The conclusion ought to be," he says, "not that the law is false,

but only that it is not the entire law of the phenomenon. There is some amount of indeterminateness in its operation—a certain limited amount of variation is possible within the bounds of the law; and as there must be a sufficient reason for every variation in an effect, there must be a supplementary law which determines the effect, between the limits within which the principal law leaves it free. Whoever can teach us this supplementary law makes a valuable addition to the scientific theory of the subject, and we shall presently see," he says, "that in substance, if not strictly in form, Mr. Thornton does teach it." The supplementary law taught by Thornton, Mill states as follows:—

"When the equation of demand and supply leave the price indeterminate because there is more than one price which would fulfil the law, neither buyers nor sellers are under the action of any motives derived from supply and demand to give way to one another. Much will, in that case, depend on which side has the initiative of price. This is well exemplified in Mr. Thornton's supposed Dutch auction. The commodity might go no higher than 18s. if the offers came from the buyer's side, but because they come from the seller the price reaches 20s. Now, Mr. Thornton has well pointed out that this case, though exceptional among auctions, is normal as regards the general course of trade. As a general rule, the initiative of price does rest with the dealers." And then he goes on to say, "if it should turn out that the price of labour falls within one of the excepted cases—the case which the law of equality between demand and supply does not provide for, because several prices all agree in satisfying that law—we are already able to see that the question between one of those prices and another will be determined by causes which operate strongly against the labourer and in favour of the employer. For there is this difference between the labour market and the market for tangible commodities: that in commodities it is the seller, but in labour it is the buyer who has the initiative in fixing the price. It is the employer, the purchaser of labour, who makes the offer of wages; the dealer, who is in this case the labourer, accepts or refuses. Whatever advantage can be derived from the initiative is, therefore, on the side of the



employer; and in that contest of endurance between buyer and seller, by which alone in the excepted case the price so fixed can be modified, it is almost needless to say that nothing but a close combination among the employed can give them even a chance of successfully competing against the employers."

There are several other arguments in the paper from which I am quoting which I have tried to controvert in a pamphlet which I published, *A Criticism of the Theory of Trades' Unions*, but this is the most important and the others all rest upon it. I shall therefore confine myself to it.

I think, then, that Mill's statement of the law is inexact, his acceptance of Mr. Thornton's correction of it unsound, and his remedy for the inexactness complained of in the law certain to increase that inexactness.

To take the statement of the law first, I submit that it is incorrect to say that "the ratio which exists between demand and supply when the price has adjusted itself is always one of equality." That assumes a period of rest, but the forces of demand and supply are never at rest for a single instant. And therefore the mean of the oscillations in price is an ideal point—an exact mathematical point, having no dimensions, not broad enough to be stated exactly by any money denomination. As Mill himself says in the last phrase of his statement of the law, "the point of exact equilibrium is only momentary." It cannot therefore coincide with the duration of a price which often remains unchanged for long periods. It is, I think, more exact to say, not that demand and supply are equal at any given price, but that they are always tending to an equality at an exact point in price. It is a law of tendency only; it never gives a perfectly exact result. The nearest approach to exactness is only an approximation. I think there is a double action going on, the swaying backwards and forwards of supply and demand in their attempts to settle at an exact point, and that point itself a shifting one. It is something like the swaying of the forces which move the indicator in an aneroid barometer in their attempts to settle at its shifting points.

In a badly-made barometer, where the gearing was slow to move,

it would not follow that the forces were quiescent because the indicator remained unmoved for a time and then sprung suddenly to a distant point. A finer instrument would show a more gradual movement. And so, in a rough, slow economic market, where there are few transactions, the movements of prices are violent, the area of the seeming quiescence of the forces is large; while in a sensitive market it is almost infinitesimal. And even then it is only in appearance that there is a quiescent area at all. The movement is incessant over an exact but shifting point.

Now, that I think is the true correction which Mill admits that the law as stated by him needs. Stated in my way, the law does not need any correction or supplement. It covers the whole of every case. Mill starts by claiming too much for the law in supposing that it fixed with exactitude the terms of every individual transaction. Any business man could have told him that was not the case. There is generally such a thing as getting the best or worst of a bargain. Where there are few transactions there is much room for skill and astuteness in bargaining, but not in a market where there are many individual transactions. There you may quite safely take what is going, what is offered, without suffering any appreciable loss.

But if Mill expects too much of the law in one way, he gives it too little scope in another. In speaking of it as quiescent or inoperative for a time, he takes a very short view of the matter. The operation of the law does not finish with the conclusion of that particular bargain. The goodness or badness of the bargain, the amount by which the price exceeds or falls below the imaginary point at which demand and supply are supposed to be equal, have each their effect in stimulating or checking demand or supply for the future. In the example Mill gives of fish selling either at 18s. or 20s., the demand and supply being the same at both prices, it would still be the case that a sale at 20s. would tend to stimulate future supply and check demand, with a consequent tendency to a fall in price, while an 18s. price would tend to bring out more buyers and reduce the inducement to go to sea.

There is not an inch of ground which can be called a no man's land within which the law of supply and demand does not operate. Every

farthing of variation in the price has its effect on future supply and demand, just as every drop of water swells the sea.

The economic law works by tendency. It approaches exactitude over a multiplicity of cases, and is very nearly exact where there are many transactions, but it is never absolutely exact in any one case. In collective bargaining it is at the maximum of inexactness.

But now in regard to the supplementary law which Mill says Mr. Thornton has established. He says that whoever has the initiative in naming a price will get the best of the bargain, and as the employer has that initiative, a close combination among the employed is absolutely necessary.

Well, the answer to that is, that it is not only untrue, but the very reverse of the fact. Every business man knows that it is, generally speaking, a disadvantage to take the initiative in naming a price. No man says, "I will give you £1000 for your house," without first asking "How much do you want?" And further, the remedy which Mill and Thornton approve of, a close combination and collective bargaining will and does enormously increase the area of inexactness which, it is admitted, exists in fixing the terms of each individual bargain. For collective bargaining involves a small number of large transactions, and the inexactness which he proposes to correct by this method is in the inverse ratio to the number of the transactions. There are comparatively few dealings in pictures, therefore the indeterminate margin for bargaining is large there. There are many dealings in government stocks, and the margin for bargaining in them is not more than  $\frac{1}{8}$  per cent. So that Mr. Mill's remedy for the inexactness in the labour market increases it, because it reduces the number of transactions.

Want of time prevents me from proving and illustrating more fully these two latter points, as I could easily do, but that is the less necessary, as Professor Alfred Marshall, in the latest edition of his *Economics of Industry*, says that in my *Criticism of the Theory of Trades' Unions* I have proved Mill and Thornton to be wrong in thinking the initiative to be an advantage in bargaining; and further, he says I have shown that the price is more indeterminate, a less

near approach to the exact economic point of the normal price in collective than in individual bargaining.

Mill's whole argument then falls to the ground. The law, properly stated, needs no correction. His supplement rests on an untrue assumption in fact, and his remedy increases the inexactness complained of. His plea for combination has no force, but rather tells against it.

But Mr. Marshall, while admitting that I have proved Mill to be wrong, adds that the employed are not at such a disadvantage in bargaining by the combined as by the individual method. And the disadvantage, he says, consists in this, that they are poor and are known to be bound to sell without reserve. And further, he says "a man who employs a thousand others is in himself an absolutely rigid combination to the extent of one thousand units of buyers in the labour market." And he gives these as good reasons for the existence of Trades' Unions.

Mr. Marshall, therefore, agrees with Mr. Mill as to the necessity, or at least the advantage of Trades' Unions, though for totally different reasons. Mr. Mill thinks them necessary to counteract the advantage of the initiative. Mr. Marshall thinks there is no advantage in the initiative, but rather the reverse; but he thinks the Unions needed to put the workmen more on a level in bargaining, to form them into units more nearly approaching (or exceeding) the employers' units in size, and also to enable them to put a reserve price upon their labour.

Well, now, in the first place, it is admitted that if the law is left alone to work automatically in individual bargaining, the margin of indeterminateness will be very small, while in collective bargaining that margin will be very much greater. Would it not be better then to accept the terms which the law gives naturally, than in trying to get a bigger share of that very small margin, to create conditions which reduce the certain and increase the uncertain pay to be fought for, and necessitate conflicts on a large scale.

But further, I do not think that a larger unit has any advantage over a small one in bargaining. If it had there would be no such thing as equality in bargaining at all, as no two parties are ever quite equal

in size, in wealth, or anything else. If Mr. Marshall's argument was sound, then a merchant buying cheese from ten farmers and selling to three hundred customers should be at a great advantage in dealing with both, "as he represents a perfectly rigid combination, &c.," and it should be necessary, in order to prevent him exploiting the farmers, that they should combine against him, and also that the customers should protect their interests in the same way. They do not combine, and provision merchants do not make fortunes; the price of cheese rises and falls independently of their will. The competition of provision merchants keeps up the price to the farmer, and keeps it down to the customers. And the same thing holds good in all kinds of business. But, it may be said, that may be true in regard to commodities, but not in regard to labour. The tendency of to-day is towards amalgamation of large concerns, concentration of trades into few hands. To meet these great combinations, the men, it is said, must combine, or they would be crushed.

The necessity is purely imaginary. The competition of employers does the same for the labourers as the competition of the provision merchants does for the farmers and the consumers of cheese. These large combinations buy their raw material from a number of sources, and I never heard it alleged that they could, or did, crush those who supplied them. They must make it worth their while. It is the same with labour. The labour in any trade is not a fixed quantity. Men are constantly giving up work for a great variety of reasons, and others taking their places. Every man who dies, or gets past work, or leaves the trade, or the town, or the factory, has to be replaced, and the terms must be such as will attract others.

Now suppose, to take an extreme case, that all the masters in a trade were to amalgamate. Suppose that the one employer gradually finds his men getting scarce—some leaving, and no new men taking their places. He must increase their wages to keep and attract them. On the other hand, when trade is slack—few men leaving and an abundance of men applying for work—wages may be reduced, either gradually as new men are engaged or by a general

reduction. Even in the latter case there is no need for the men to strike. They may rest assured that, if the reduction is not justified by the facts, the facts will soon assert themselves. The supply of men will fall off and the rate will have to be raised again. But it is said that combination enables the men to put a reserve price on their labour which they could not otherwise do. Well, I have said that the true economical wage is that necessary to attract a sufficient number of men to do the work properly, or, in other words, it is the real reserve price put upon their labour by those men who are in the strongest position economically. Suppose that there are 3000 men of a certain degree of skill wanted in a trade, and that 2000 are forthcoming at 25s., 2200 at 26s., and so on, until to secure the last batch required to make up the 3000 30s. has to be paid. Well, the wage in that trade will be 30s. Thus the wage is fixed by the real reserve price of the last batch of men required. These men are the strongest men in the trade economically. From whatever cause, they are in a strong position for bargaining, and they practically do the bargaining for the whole trade. Any attempt to crush the weaker men and reduce the wages would drive these strong men away, and the wages would have to be raised again to get them back.

Now, here I would remark, in passing, that the phrase "in a strong position for bargaining" is very apt to be misleading. For, in a large and free market, there is very little bargaining at all—very little higgling, that is, over a bargain. The price is offered, as a rule, and taken or rejected. The keen intellectual ability to bargain, of which so much is made, is a necessity created by combination. It is of little consequence in individual bargaining.

Now, to recur to my argument, does combination give the men a stronger weapon than that? I think not. Combination does not enable the men to put a real reserve price on their labour, but only a fictitious or temporary price fixed arbitrarily for the purpose of bargaining. And it is only the real reserve price that is of any strength in bargaining. It is very doubtful if the labourers, if it came to a push, would really make the price demanded the reserve price. The employer knows that, and is thereby challenged to a trial of endurance,

with the certainty that, if he declines the challenge and submits, he will soon have another demand made upon him. Therefore he must show fight. Now this method provides no test of the real reserve price, or of the true economic wage, which is the same thing, and, even if it did, it would surely be a most expensive method, when, by simply doing nothing, the real reserve price of the most independent men in the trade would shortly manifest itself and rule the wage for all.

Now, let us consider Mr. Marshall's other contention that workers are at a disadvantage in bargaining because they are poor and are known to be bound to sell without reserve, because their labour will not keep. I do not think that the labourer is at any disadvantage in bargaining from these causes, either in theory or practice.

The law of price is that supply as it exists, with all its conditions, all its advantages and disadvantages, tends to an equality with demand with all its conditions at a certain point in price. Any normal condition then, any condition that is constant, has already had its effect in helping to determine the amount of supply or demand, and cannot therefore be said to be a disadvantage when it comes to bargaining. To suppose otherwise would be to count an effect twice over, or to give a single factor a double value. And this fact that their labour will not keep is a constant condition. If it is a disadvantage, it is one which has already had its effect in deterring supply, and therefore in raising price. That ideal point in price, on either side of which is the area for bargaining, is just so much higher because of the constant disadvantage. And if by combination or other means you could abolish this disadvantage, then men would be more willing to take employment, and the normal price would be lower than it is. Every circumstance, every advantage or disadvantage, is reduced by the law to one common denominator; it is a force affecting supply or demand. It is, therefore, I think, unscientific to say that the law of supply and demand would give a certain result, but that there are certain qualifying circumstances. The law takes account of every circumstance. Just as a fruiterer, because he has to sell off his stock cheaply on Saturday night, gets a higher price during the week than he otherwise would, so the workman gets a normal advantage in wages, counterbalancing

any very slight disadvantage he may have to suffer in bargaining. But a better analogy than the fruiterer's is the case of the fisherman. The fisherman is known to be bound to sell without reserve, not on Saturdays only, but every day, and he is poor, and he cannot leave the trade, yet he is not alleged to be at a special disadvantage from these facts, nor does he combine, as Mr. Marshall thinks the workman must, to put a reserve price on his wares. He sells his wares freely for what he can get, as I think the workman should, and there is no disadvantage to either in doing so.

I believe that collective bargaining puts the workman in a worse position. For in a free market, capital, anxious to get a return, is weak in proportion to its plenty. But in a contest of endurance, in a fight to a finish, the rich capitalist is strong, and certain to win.

It is not because workers cannot stand out that wages are low, it is because there are many workers competing for the job. A rich man's daughter who wants to do needle-work will not get any more for it than a poor sempstress will. Her power of holding out will not help her to a better price. The number of applicants competing for the work, not their poverty or helplessness, is the determining factor. If there were more than enough rich men's daughters wishing to do all the sewing, wages would fall lower than they are, even below a starvation point, and sempstresses would be altogether crowded out; but the fact that some workers are required who must live by it keeps the wage up to a living point.

So much for the theory. And the practice bears it out. The statement continually made that the workman must take any wage that is offered, however low, or starve, is such an exaggeration as to be practically untrue. In the great majority of hirings, the workman is not unemployed; he passes from one employment to another. It is only in a small minority of cases that he has to take a wage below his real value, and in any trade such as we are discussing, where there are a sufficient number of men to think of combining, there will also be a sufficiently free market for the law of price to assert itself, and he will soon find a job at his proper wage. Even supposing the very unlikely case of a master taking advantage of the exceptional weakness



of a workman to reduce his wage, the machinery of the trades' union is an absurdly costly remedy. It is using a steam hammer to crack nuts. The help of friends or benevolent persons till the crisis is past is all that is needed to meet such rare cases.

It would not, I think, be difficult to show that the employer is at least at as great a disadvantage in bargaining as the workman. He has generally put his all into his factory, and must keep it fully occupied, or be ruined. I do not say he has more need of the workman than the workman has of him, but he is quite as dependent. Indeed, their needs are balanced at the price. But I have not time to dwell upon this.

Mr. Marshall gives the following as an analogy to the action of trades' unions on wages :—He says, "A viscous fluid in a vessel tends to form a level surface, but if from time to time an artificial force pushes down the left side, which we may take to correspond to wages, it may reasonably be maintained that the average position of the left side is lower than it would have been without such interference, in spite of the indisputable fact that the force of gravitation is constantly tending to reinstate the position of equilibrium. What unions claim to be able to do corresponds to applying frequent and stronger pressure on the right hand side, thus causing profits to yield the higher level to wages; so that the average level of wages partially sustained by friction, which will now act for them, will be higher instead of lower than if the forces of supply and demand acted with perfect freedom."

Arguing by analogy is never quite satisfactory, but I think, in the first place, that Mr. Marshall has not shown that there is anything that can be called artificial pressure on the left or wages side of his fluid. There is nothing there but what is normal and constant, and therefore already compensated by the economic law. The force which he calls artificial, is just part of the force which corresponds to gravitation, in tending to reinstate the equilibrium.

And to put the analogy on all fours with the facts, it should be said, I think, that the viscous fluid in the vessel is not a fixed quantity; it is continually being added to or taken from. And the admittedly artificial pressure, which Mr. Marshall approves, in raising the level of the fluid, closes some of the holes by which it is replenished, and opens

wider those by which it is depleted. And further, it should be added that the walls of his supposed vessel are so exceedingly thin that there is always a certain loss by leakage, and that the "frequent and stronger pressure" causes the fluid to exude through them more freely, and so reduces its volume and its normal level to an extent that makes even the exceptional level lower than the natural normal one.

And this is the answer to the question often asked, "If the law of supply and demand equalises all things and neutralises any efforts to interfere with its natural working, why should the action of trades' unions be objected to, as their efforts are sure to be fully counter-balanced in some way by the law?" The answer is—first, that while they get no advantage to the working classes as a whole, they cause much injustice among these working classes, the members of the restricted trades getting an undoubted advantage at the expense of those who are excluded from these trades and crowded into others. And second, trades' unions are objected to because, to continue the above metaphor, all the methods of collective bargaining tend to reduce the amount of the viscous fluid, so that there is less to divide—a lower level for both. In many ways—which I have detailed in another paper, "Evils of Collective Bargaining"—trades' unions reduce production, while they never in any way increase it. The economic law prevents them from getting more than a certain proportion of the product, but, as it is a proportion of a vastly reduced product, they not only suffer themselves, but inflict loss on the whole community.

I think, therefore, that both of these great authorities have taken a wrong turning in this matter. Mr. Mill's absolute, and Mr. Marshall's modified, approval of trades' unions are both, I think, inconsistent with a true interpretation of the law of supply and demand. Their heresy may seem a small one, but it has had very large results.

My time is about up, and I can only glance very briefly at some of these results. To do more would need another paper. Indeed, several papers of this length would not be enough.

As Mr. Mill puts no limit to the area of uncertainty within which he thinks the law to be inoperative, it may be as large as you choose to suppose, and may practically cover the whole ground that can

possibly be disputed. It seems hardly worth while to formulate a law which disappears the moment an appeal is made to it.

Mr. Mill's essay is the charter of trades' unionism, its economic sanction. Mr. Marshall does not go the length of Mr. Mill. He does not think combination can do much to raise wages, but he thinks it can do something. That being so, it seems useless to advise moderation to the unions, as they must put forth all their strength, and use every means to obtain what they think to be their just rights, which are always something above what they are getting.

The practical effect, then, of the theoretic teaching of Mill and Marshall has been to banish the law of supply and demand from the consideration of all labour questions to Mars and Jupiter. There may have been other causes conducing to that end, such as the teaching of the German economists and socialists and of our own sentimentalists. But I am not familiar with these, and confine myself to what I have read. In the economic journals I see many papers which could never have been written if their authors had had any notion that there was a natural law working automatically to a satisfactory conclusion. And even those who do know it, such as the younger professors of political economy, hold it only as a pious opinion, not as a living faith.

To anyone who thoroughly believes in that law, it is the universal rectifier of all economic inequalities, injustices, and anomalies. To him there is no problem of distribution. Distribution is automatic, fairly determined by the law in the process of production. Produce! produce! produce! is the first and last word in the old economics of industry. Nothing can prevent all classes from getting their share of the produce. As General Walker says, "the one thing to be secured for the proper distribution of wealth is perfect competition."

But in the new popular economics competition is discredited, and production takes almost a second place. Distribution, we are told, is the great modern problem. Professor Mavor says "it is a comfortable doctrine that all is making for the best, but it is strangely falsified in real life. The social forces we have to deal with may more safely be guided than left to work out their own salvation." "And for this guidance," he says, "it is necessary thoroughly to understand the actual

conditions." "This," he says, "is a necessary preliminary to all social progress." And he further says, "though fundamental motives remain the same, they enter into relations increasingly hard to disentangle." And Mr. and Mrs. Sydney Webb in one of their essays speak of the extreme difficulty of ascertaining all the different factors that have to be taken into account in deciding a rate of wages, and giving to each factor its proper value. Here I may remark in passing that those who are looked on as our orthodox economists are almost, if not quite, in line on labour questions with Mr. and Mrs. Webb, who are, I think, avowed socialists. The latter are so far consistent, the former are not so.

Well, I think instead of difficulty they should both have said impossibility, and given up the task. Nothing short of omniscience, perfect impartiality, perfect judgment and power, would be sufficient for it, and any authority falling short of these qualities would land us in a chaos of confusion. And who is to have the authority? Government officials? To ask the question should be sufficient.

Professor Marshall says—"Public opinion, based on sound economics and just morality, will, it may be hoped, become ever more and more the arbiter of the conditions of industry." I think a more unsafe guide could not be. It is no more fit to decide the conditions of labour than to fix the price of cotton or bread. It would always decide for the cheap loaf and the high wage and short hours. If public opinion ever rises above the influence of a catch word like "the docker's tanner"—which is unlikely—to that of a sound economy, it will leave the conditions of industry to be settled by the law of supply and demand. That law is omniscient, nothing escapes it; and it is omnipotent, nothing can for long resist it. And as social progress has been made in the past without the statistics and inquiries that Professor Mavor calls for, I think we shall do very well in the future without the public department which he thinks necessary to make these inquiries.

Indeed we can do very well without any economics at all. Professor Smart remarks that in the middle ages, though there was an almost total absence of economic literature, industry and commerce flourished. The chief use of economic study is to save us from the dangers of legislation and collective action based on bad economics. And I think

there could not be worse economics than the present idea of replacing the gentle, beneficent, all-pervading action of natural law by the violent and uncertain collective action based on selected facts and figures. Adam Smith says somewhere that when merchants met together it was generally to concoct some mischief. Workmen's meetings are not likely to be more wise. And I may remark that Adam Smith had no figures to speak of, and no facts but what were patent to everybody.

And this leads me to speak of another development of the ideas for which Mill and Mr. Marshall are responsible.

As we are told that trades' unions are necessary, and it is difficult to get women to unite effectively, a number of societies have been formed to do for them what they cannot do for themselves. The Christian Social Union, the Women's Protective League, the Scottish Council for Women's Trades, and other societies devote themselves to prosecuting enquiries into the wages and conditions of women's work, and trying to improve these. They take credit for having influenced legislation and gained advantages for their clients. I think they have often done much injustice to employers, and they do much harm to women workers, by increasing their disabilities and restricting the sphere of their employment. They cannot get all the facts; but they get a statement of grievances, true or false, without the counterbalancing advantages which cause the employment to be accepted. For it is continually forgotten that all trades and occupations tend to an equality of advantages. We hear of the grievances of railway men, of street sweepers, of postmen, of weavers, of washerwomen, but nothing of the compensating advantages of the trade, without which the workers could not be got or kept. If you, by legislation or otherwise, abolish the grievance, the corresponding advantage automatically goes after it. These societies assume that in the absence of combination employers can crush down wages to starvation point, and they hold up to public odium those who, in their opinion, pay too little. They ignore the experience of domestic servants, which contradicts their theories. They ignore the fact that the market fixes the rate, that an employer cannot afford to pay more and cannot get workers for less. I read in the reports of these societies, and of their meetings, that competition

is an evil, that it is wrong to buy in the cheapest shops, that a new employer in the field means lower wages, that women should always be paid the same rates as men, that an extension of the field of women's work is a thing to be opposed as a sad sight—"women taking the scanty morsel of bread out of men's mouths." Better, they think, that men at 40s. a week should go on doing work which could be as well done by women and children at 10s. or less. If you tell them that there is only a limited amount to divide, they reply that that is the exploded wages fund theory. All this is economics upside down.

It may be said that these are only errors of otherwise useful societies. But that would be a mistake. They are their essential principles, just as limitation of learners, demarcation of work, the minimum wage, and other rules which reduce production are the essential principles of effective men's trades' unions. And they push these false principles to their conclusions. And if it is thought unfair to make economists responsible for these principles, the answer is that these societies have Professors of political economy on their committees, and that they claim with justice to have had considerable influence on legislation.

Now, I should like to illustrate the different points of view of business men or old economists and the new economists by a concrete case.

There are two industrial villages in Scotland which I shall call Stonefield and Milton. The Women's Protective League ascertained, in their enquiries, that women's wages in Stonefield were disgracefully low, while about the same time the Glasgow Trades' Council learned that men in Milton were very much underpaid. The Ladies' Society sent down a deputation to Stonefield to see if the women could be organised to demand better pay, and the Trades' Council denounced the employers in Milton. That is the point of view and method of the new economy. To the business man the cause and the cure of these conditions were quite simple. Women's wages were low in Stonefield because it is a mining district, with high wages for men and little employment for the women of their families, while in Milton there was a large factory with a superabundance of work for women.

and good pay for them, and little work for their fathers and brothers. It was quite right and proper in these conditions that women's wages in Stonefield and men's in Milton should be low. Nothing was said of the fact that men's wages in Stonefield and women's in Milton were very high, thus establishing the equality of advantage which made families willing to go and stay in these two places. And the natural economic or business cure (if any is wanted) would be that some one should go to start another factory in Stonefield to get the advantage of the low wages there, and some one else a foundry in Milton with the same view. This would raise women's wages in Stonefield and men's in Milton. But the plan of the new economists, of forcing or moralising the employers, would effectually prevent that business remedy from acting, would keep the conditions as they are, and would commit the workers to a habitual attitude of bitter antagonism to their employers without gaining them any benefit.

To try to help workers by attacking or influencing employers is no doubt an agreeable process. It gratifies our feelings of benevolence for those who are poorer than ourselves, and, perhaps unconsciously, sometimes our less friendly feelings for those who are richer. But I believe it does nothing but harm. Where wages are low it is not because employers are unregenerate, but because there are too many workers for the work. The natural law will, by means of the low wage, diminish the workers and increase the work till they are balanced at the wage current all over. If public opinion, as recommended by Mr. Marshall, steps in, and succeeds in getting better conditions for the workers, it will keep them in excess, and prevent the increase of work, being often a severe and most unfair tax on the industry, sometimes to its absolute ruin.

This, then, I believe, is the difference between business men and economists at the present time, of which Lord Goschen spoke. The former, not so much by academic reasoning as by the necessities of their position, are obliged to hold, in its fullest degree, and regulate all their dealings, by the principle of the law of supply and demand in regard to everything that has a price. In that they are faithful to the traditions of the old economy, they have not changed. Our new

economists, on the other hand, while accepting that law in regard to commodities, have in regard to labour so limited their acceptance of it, that little remains of it in theory, and still less in practice. They make a distinction between commodities and services, which is quite untenable. They are individualists in regard to the former, more or less socialists in regard to the latter—a strange position. Our amateur economists and self-styled friends of the working classes, and trades' unionists, openly repudiate the law, and are able quite fairly to quote the highest authorities in favour of their actions.

My conclusion is this. Where the units, both of buyers and sellers, are small and transactions many, the law of supply and demand works sweetly. *With large units (i.e., employers) on one side only, and the other side in small units (i.e., individual workmen), it still works smoothly, because the transactions are still numerous.* But with both sides united in large units, and few transactions, that is in collective bargaining, it works very roughly and expensively. Fights are inevitable in fixing a price. But these fights may be, as in the market for commodities, thousands of little friendly encounters for a margin which the market has made so small that it hardly matters which side gets it—the higgling of the market, which rather increases than diminishes good feeling between dealer and customer. Or you may have the smaller number of ruinous and bitter struggles for a large and unknown margin, with no market to guide you, called collective bargaining. Business men prefer the former method; working men have chosen the latter, and are supported by the “new economists.” But collective bargaining is a failure. That is proved by the adoption of arbitration and conciliation. And these methods are failures also, as is proved by the call for compulsory arbitration. And that also, besides being absurd in theory, has been a failure in practice in New Zealand. Where, then, is relief and peace to be found? I believe only in a return to individual bargaining. In other words, in dispensing with the unions. The Americans are trying that at present. If they succeed, we must follow their example, or we shall be ruined just as the Guild towns, in the time of the Tudors, were ruined by the competition of places where the oppressive regulations of the guilds did not exist.

T. S. CREE.



## PRACTICAL CONCLUSIONS.

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Since writing the foregoing paper, I have frequently been asked "what is the practical outcome of your arguments? The trades' unions are with us, suppose you organise the employers to meet them, there you have collective bargaining more fully developed even than it is now."

I believe the solution of the difficulty is suggested in a letter by Mr. Cobden written to a correspondent, who said that employers must combine to protect themselves from ruin by the unions. Mr. Cobden replied that he thought unions, either of men or masters, were much to be deprecated, but that if the masters were driven to combine, he hoped they would do so "for defence only."

Now let us see what that involves. It means that they should not use their combinations to enforce terms upon the men. They should not then bargain in combination. They should fight, not combinations, but the principle of combination. They should make no attempt to force common conditions or wages on the whole trade, and they should resist any such attempt by the unions. Every shop should have its own wages, its own hours, its own conditions. The workman with ten children would go to the long hour shop to earn high wages; the man with no family could, if he liked, take the low wages in the short hour shop. They should, in short, insist that the law of supply and demand should have full and easy play in individual bargaining. And there is only one way to do that. There should be in every trade a combination of employers for one purpose only, to fight every strike without exception. They should not enter into the merits of the dispute; that would be collective bargaining. They should not even consider any joint complaint. They should agree among themselves to deal only with their men individually through the foremen. If any member of the organisation should have a strike, he should be supported

by the full force of the combination. Men should be found for him, his orders should be executed, and all his expenses and loss by the strike should be borne by the central body. Perhaps a small fixed proportion should be deducted as a check upon readiness to quarrel. But it should be small and fixed. It is essential that the payment of loss should be certain, and not in any way subject to the discretion of a committee, which might include jealous rivals, willing enough to see their competitor crippled. On his part, he must not give in. Even if the executive of the combination thinks the employer to blame, he should still be supported. For the normal difficulty of getting workers or retaining them is the proper and sufficient punishment for his fault, whatever it may have been.

The men should practically be told "continue at your work. No strike ever was or could be justifiable. If the wages are poor, or the work hard, or the employer harsh, then leave him one by one as and when you can do better. If you cannot do better, then it is evident that the conditions, though in some respects undesirable, have compensations, and are on the whole as good as are going and enough to keep you. And understand that if you strike, you leave your places for good and all, and will not get back to them if we can help it. You need no protection beyond what is given by the economic law of supply and demand any more than a small shopkeeper does, or than domestic servants or clerks do."

Now this may appear shocking to some people to whom trades' unions are a matter of course. But there is nothing new in it. It is exactly the position which individual employers tried to maintain fifty years ago. And it is a right and just position. If the employer risks his all in factory, or ship, or plant, it is right that he should set the terms of the employment to be accepted or rejected according to the different needs and likings of the workers individually. Trades' unions are not the growth of necessity, they are born of opportunity. The single employer tied to his factory, which he must keep going or perish, is, in the face of combination, a helpless object, too easy to plunder for the temptation to be resisted. And so employers have been driven out of their old position by the men's unions.

But the engineers strike, and some others, have shown that when the employers are at bay, and fully determined, they can beat the men, even in collective bargaining. Let them use their strength then to recover their independence. They have learned a lesson from the men, let them "better the instruction." They should not waste their strength in collective bargaining, but in a return to the individual method. In short, they should "smash the unions."

If this were done our labour troubles would be at an end. If the employers were masters in their own shops, machinery and methods would be much more rapidly improved, production would be greatly increased, goods would be cheaper, profits larger, and real wages, all over, much higher. All the absurd restrictions upon production would be abolished, and Great Britain would again be able to compete on equal terms in the markets of the world. And, lastly, masters and men would be friends again, as they were before the unions estranged them. If the employers could rise to the occasion, put aside their trade jealousies, and unite as devotedly as the men, the thing could easily be done.

That is my answer to the question, "What is the practical outcome of your academic arguments?" but, even if it is not successful, if I have shown that trades' unions are not necessary, and have in any degree withdrawn sympathy from them, I shall have done a good work.

BY THE SAME AUTHOR.

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**"EVILS OF COLLECTIVE BARGAINING."**

THREEPENCE.

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The Duke of Argyll has written the following letter to Mr. T. S. Cree:—

"INVERARAY, ARGYLLSHIRE,  
*"January 5, 1899.*

"DEAR SIR,

"I have read your pamphlet on 'Collective Bargaining' with the greatest interest. It is a most able paper, and if there be any fallacy in it, I do not know where to find it. Your papers are all so temperately written that they ought to produce an effect; but men are terribly blind to results of conduct which are not direct and immediate, and they are often positively resentful against the very idea of great natural automatic laws which checkmate our wills when these are ruled by a spirit of ignorant rebellion against the nature of things.

"Yours truly,

"ARGYLL."





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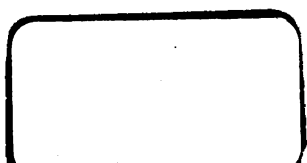












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